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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS
GARY PIERCE, CHAIRMAN
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IN THE MATTER OF THE APPLICATION OF MOHAVE ELECTRIC COOPERATIVE, INCORPORATED, AN ELECTRIC COOPERATIVE NONPROFIT MEMBERSHIP CORPORATION, FOR A DETERMINATION OF THE FAIR VALUE OF ITS PROPERTY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RETURN THEREON AND TO APPROVE RATES DESIGNED TO DEVELOP SUCH RETURN.

DOCKET NO. E-01750A-11-0136

NOTICE OF FILING OF TESTIMONY SUMMARIES

Mohave Electric Cooperative, Incorporated ("Mohave" or the "Cooperative") by and through undersigned counsel, gives notice of the filing of the Testimony Summary of Carl N. Stover, Michael W. Searcy and J. Tyler Carlson in the above-referenced matter as required in the procedural order dated July 15, 2011.

RESPECTFULLY SUBMITTED this 5th day of April, 2012.

CURTIS, GOODWIN, SULLIVAN, UDALL & SCHWAB, P.L.C.

Arizona Corporation Commission
DOCKETED
APR - 5 2012
DOCKETED BY

By: [signature]
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File: 1234-018-0008-0000; Desc: Notice of Filing Testimony Summary 04 05 12; Doc#: 124062v1

PROOF OF AND CERTIFICATE OF MAILING

I hereby certify that on this 5th day of April, 2012, I caused the foregoing document to be served on the Arizona Corporation Commission by delivering the original and thirteen (13) copies of the above to:

Docket Control
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Phoenix, Arizona 85007

COPY of the foregoing hand delivered and emailed this 5th day of April, 2012 to:

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SUMMARY OF TESTIMONY OF CARL N. STOVER
ON BEHALF OF
MOHAVE ELECTRIC COOPERATIVE, INCORPORATED
(Docket No. E-01750A-11-0136)

Mr. Stover is the Chairman of the Board of C. H. Guernsey & Company, Engineers • Architects • Consultants. He has filed Direct, Rebuttal and Rejoinder testimony in support of Mohave's rate application. Mr. Stover testifies regarding:

- The determination of the appropriate margin component of the revenue requirement.
- The proposed treatment of the purchased power component of the revenue requirement.
- The elimination of the $9 million cash or cash equivalent requirement established by Commission Decision No. 72216.
- Staff's initial but later dropped recommendations that would result in Mohave writing-off approximately $3.1 million[1] consisting of prudence costs and power supply-related costs, exceeding the approximate $2.9 million rate increase initially proposed by the Staff.
- Mohave's recovery of $562,035 in purchased power supply-related consulting, legal and internal labor costs incurred in 2010 through Mohave's Purchase Power Adjustment Clause (PPAC). As Staff specifically allows the recovery of these costs, the only questions are whether the costs are recoverable through the PPCA, Mohave's base rates, or a combination of both and whether the PPCA bank balance is to be adjusted to remove the 2010 costs.
- Mohave's current method of dealing with third-party sales as appropriate, consistent with past practices, and in the best interest of the retail member-consumers.

Mr. Stover recommends:

1. Rejecting the $163,221 prudence adjustment related to 2008 power cost (Staff has now dropped this recommendation).
2. Rejecting the $1.94 million prudence adjustment (sanction) arising from Mohave's timely objection to producing 7/25/2001 – 12/31/2006 data be rejected (Staff has now dropped this recommendation).
3. With regard to purchased power supply-related costs:

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[1] Components include:

2001-2006 prudence cost	$1.946 million
Test Year power supply cost:	$562,035
Estimated 2011- current:	$562.035

a. Removing $32,702 in purchased power supply-related lobbying costs from both operating expense and the PPCA Bank Balance;
b. Adjusting the PPCA by $91,537 for errors and omissions in calculating purchased power supply-related costs and the bank balance between August 2001 through December 2010;
c. Specifically authorizing the recovery of 2010 and ongoing purchased power supply-related consulting, legal and internal labor costs through PPCA, or alternatively, disallow the practice prospectively, once Mohave's rates are approved in this case with these costs included in base rates.

4. With regard to third party sales:
   a. Continue current treatment of third party sales, as consistent with Commission treatment of other sales excluded from PPCA and discussions with Staff in 2004 in order to provide the greatest benefit to Mohave's member consumers, or, if the treatment is changed prospectively, to make the appropriate adjustment to the base purchased power cost as described by Mr. Searcy.
5. With regard to the 18 recommendations included in Mr. Mendl's Surrebuttal Testimony:
   a. Adopt Recommendation No. 1, with the exception of his spot market qualifier, and determine Mohave's policies of power supply planning and implementation as being implemented in 2010 are reasonable and appropriate;
   b. Adopt Recommendation No. 8, to reduce Mohave's purchased power bank balance by $91,537 for errors or omissions in calculating the purchased power cost and bank balance between August 2001 and December 2010, inclusive;
   c. Adopt Recommendation No. 9 and determine Mohave's actual eligible purchased power costs were adequately documented from August 2001 and December 2010;
   d. Adopt Recommendation No. 10 and determine Mohave's actual purchased power costs, adjusted to remove any ineligible costs and error or omissions [as ordered by the Commission], are prudent and reasonable for August 2001 through December 2010;
   e. Adopt Recommendation No. 17 and acknowledge that Mohave's selection and management of Western to provide critical services are prudent and reasonable; and
   f. Reject, in whole or in part, Mr. Mendl's remaining recommendations as explained in Mr. Stover's Rejoinder testimony.

SUMMARY OF TESTIMONY OF MICHAEL W. SEARCY
ON BEHALF OF
MOHAVE ELECTRIC COOPERATIVE, INCORPORATED
(Docket No. E-01750A-11-0136)

Mr. Searcy is a Managing Consultant with C.H. Guernsey & Company. He has filed Direct, Supplemental Direct, Rebuttal and Rejoinder testimony in support of Mohave Electric Cooperative, Incorporated's ("Mohave") rate application. Mr. Searcy specifically testifies regarding:

- The many areas of agreement between Mohave and Staff including:
    - Adjusted 2010 test year rate base of $48,083,871;
    - Adjusted 2010 test year revenues of $76,068,006;
    - Adjusted 2010 test year operating expenses of $75,523,583;
    - Adjusted 2010 test year return of $544,423 and operating margins of ($1,776,305);
    - A recommended revenue increase of $3,061,529 or 4.025%;
    - Adjustments to "other revenue" and rate case expense;
    - The on-peak periods for the residential time of use rate; and
    - The rate design for new large commercial and industrial time of use ("LC&I TOU") customers.
- The impacts on the Income Statement and PPCA base cost due to differences with Staff relating to the treatment of purchased power supply-related consulting, legal and staff costs and of third party sales discussed by Mr. Carl Stover.
- The general consensus on rate design and Mohave's service rules and regulations except for differences relating to:
    - Implementation of Mohave's pre-paid service program as a part of this proceeding to address the needs of Mohave's members/customers, without stripping Mohave of the financial protections associated with its standard deposit policies (although Staff has set forth little disagreement with the contents of the program itself);
    - The level of monthly residential customer charge necessary to ensure year round residents are not subsidizing part time and transient customers and to eliminate the need for complex decoupling adjustors by pricing electricity more closely to how costs are incurred (Mohave - $16.50; Staff – $13.50) and the possible two year phase-in from $13.50 to $16.50;
    - The unfairness and inappropriateness of Staff's proposal to create a special (subsidized) frozen rate for Mohave's three existing LC&I TOU customers, and the possible two year phase-in from Staff's proposed frozen rate to the

appropriate rate recommended by both parties for new LC&I TOU customers;

- Staff's proposal to cap the residential class revenue requirement at the overall percentage rate increase (4.02%), which effectively freezes existing inequities, instead of approving an incremental increase of 4.07% to more closely reflect cost of service principles and the cost of service study, tempered by understandability, equity and minimizing customer impact;
- Inclusion of up to 50% of transformer costs as part of the line-extension allowance for individual customers and application of Mohave's existing line extension policy in a manner consistent with the notice prospective members receive when they request a written estimate;
- The time period Mohave will continue to apply its existing line extension policies to perspective customers who received a written line extension estimate prior to a Decision in this case; and
- Leaving the decision whether and when to file a rate case in the hands of Mohave's Board – the elected representatives of its members/customers or adopting Staff's recommendation that Mohave be ordered to file its next rate case no later than September 1, 2016 using a 2015 test year due to the data requirements associated with another purchased power supply prudency review.

Mr. Searcy demonstrates that Mohave's position regarding each of the foregoing contested issues is superior to the position advocated by Staff and should be adopted by the Commission. Mr. Searcy further demonstrates that as the duly elected representatives of the customers Mohave serves, the determinations and preferences of the Mohave's Board of Directors should be given substantial weight and deference.

SUMMARY OF TESTIMONY OF J. TYLER CARLSON
ON BEHALF OF
MOHAVE ELECTRIC COOPERATIVE, INCORPORATED
(Docket No. E-01750A-11-0136)

Mr. J. Tyler Carlson, is the Chief Executive Officer of Mohave Electric Cooperative, Incorporated ("Mohave"). He has filed Rebuttal and Rejoinder testimony in support of Mohave's rate application. Areas discussed by Mr. Carlson include:

- **Cooperative vs. IOU**. Non-profit electric distribution cooperatives are fundamentally different than investor owned profit driven electric utilities. As residents of the service area, consumers of the electric service and the elected representatives of the member-customer owners, a cooperative's Board of Directors is in a much better position to balance the needs of the Cooperative and the customers than do either the Board of an IOU or state officials elected on a statewide basis. In reality, the needs of the Cooperative and its member/customers are the same – to secure reliable energy at the lowest practicable cost consistent with prudent utility management.
- **Optional Prepaid Service**. Mohave's members desire to have prepaid service implemented immediately. Delaying implementation to consider the optional service in a separate docket, as suggested by Staff, is both unnecessary and contrary to the needs of Mohave's customers. Mr. Carlson discusses the nature of the optional prepaid service Mohave proposes and provides a form of Prepaid Service Tariff and Agreement.
- **Residential Customer Charge**. The Cooperative's proposed $16.50 per month is supported by the Cost of Service Study (COSS) submitted by Mohave and used by both Staff and Mohave in designing rates. A lesser charge requires full time customers to subsidize electric use of part-time and transient customers, subjects the Cooperative to greater rate instability and is inconsistent with the concept of decoupling because it prices energy at levels significantly above its actual cost. Mohave has proposed phasing in the rate starting with $13.50 (Staff's recommended customer charge) and increasing the rate by $1.50 with November usage in 2013 and 2014.
- **Large Commercial & Industrial TOU Rate**. Staff's suggestion to create a frozen grandfathered rate for the 3 existing LC&I TOU customers provides an unfair subsidy to large customers that have means to implement energy conservation and efficiency and have already secured an unintended subsidy from other Mohave customers.
- **Purchased Power Prudency Review and Recommendations**. Conducting a purchased power prudency review as part of this rate application process, without any forewarning or rules outlining the process, substantially complicated and delayed the rate relief requested by Mohave. Staff's initial recommendation (now

dropped) of a $1.94 million prudency penalty due to Mohave timely exercising its right to object to unduly burdensome and ambiguous data requests was arbitrary, unfair and unreasonable. Future purchased power prudency reviews can be facilitated by Staff addressing record retention expectations with Mohave now.

- **Purchased power supply-related consulting, legal and internal labor costs ($562,035 in 2010)**. Such costs are necessary components of purchasing power and are properly recovered under the Purchase Power Adjustment Clause (PPCA). Any decision to disallow such recovery should have prospective application only without any adjustment to the PPCA Bank Balance, just as any change to the way third party sales are treated under the PPCA.
- **Treatment of Third Party Sales**. Mohave does not support changing the way third party sales are treated under the PPCA as the current process of flowing margins to Mohave's income statement has the most beneficial long term benefits to members and the Cooperative.
- **Next Rate Case Filing/Streamlining**. Mohave opposes being ordered to expend the time and resources to make a rate filing no later than September 1, 2016 based upon a 2015 test year simply to facilitate another purchased power prudency review. Mohave's consumer elected Board representatives are best left to determine when a rate filing should be made based upon then current financial situation. Mohave has no objection to making an informational filing in 2016 indicating when it anticipates its next rate filing unless it otherwise intends to make a rate case filing on or before September 1, 2016. The Commission is encouraged to complete the rulemaking process on streamlining cooperative rate case as soon as possible.